

AR60

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

PROPRIETARY

ENERGY INDUSTRIES INC.



ANNUAL
1994
REPORT

CORPORATE MISSION

To acquire and develop a portfolio of Canadian oil and gas properties, pipelines, land, co-generation facilities and international drilling concessions.

ANNUAL SHAREHOLDERS' MEETING

The Annual Meeting of Shareholders will take place at 10:00 a.m. on February 16, 1995 at the offices of:

Macleod Dixon
Suite 3700
400 — Third Avenue S.W.
Calgary, Alberta

PROPRIETARY ENERGY AT A GLANCE

FINANCIAL AND OPERATING HIGHLIGHTS

FINANCIAL

1994

Net Earnings	\$ 51,165
Net Earnings per Share	0.01
Cash Generated from Operations	115,457
Cash Generated from Operation per Share	0.02
Shareholders' Equity	1,193,938
Total Assets	1,193,938

OPERATIONS

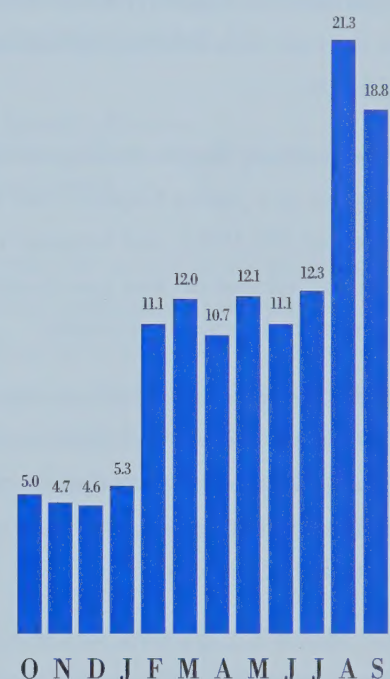
1994

Net Annual Oil Production (bbls)	3,770
Net Annual Gas Production (mcf)	152,300
Proven Oil Reserves (bbls)	55,000
Proven Gas Reserves (mcf)	527,600

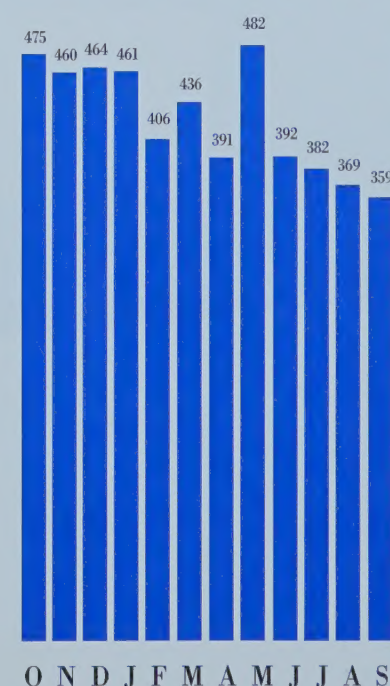
CONTENTS

Message to Shareholders	2
Corporate and Operating Information	3 & 4
Auditor's Report	5
Balance Sheet	6
Statement of Income and Retained Earnings	7
Statement of Changes in Financial Position	8
Notes to the Financial Statements	9, 10, & 11
Shareholder and Investor Information	12

NET DAILY OIL PRODUCTION
per day per month
(October 1993 to September 1994)
Barrels per day



NET DAILY GAS PRODUCTION
per day per month
(October 1993 to September 1994)
Thousands of cubic feet per day



MESSAGE TO SHAREHOLDERS

With the close of Proprietary Energy's first year of operation on September 30, 1994, I am pleased to report that the company experienced a modestly successful year with gross revenues exceeding \$400,000 and net cash flow from operations of approximately \$115,000.

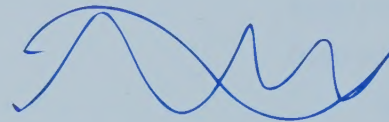
The company began trading on the Alberta Stock Exchange as a Junior Capital Pool company on December 29, 1993, and focussed its attention on acquiring various oil and gas transmission facilities, pipelines and processing plants.

Early in the year, we bid on several assets including a \$1.2 million and a \$12.5 million pipeline. Unfortunately, the first deal was lost when the operator exercised the right of first refusal, and we were significantly outbid in the second deal.

On March 22, approval was received for our major transaction which included the purchase of working

interests in a gas play in Oyen, an oil play in Pembina and the private placement of 1 million shares to a Swiss pension fund. In addition, we participated in the drilling of three Steelman, Saskatchewan area oil wells which are expected to result in 30 barrels per day of oil to the company in 1995.

Given the drop in oil and gas stocks towards the end of the year, and Proprietary's favorable track record to date, management is optimistic that the company will be in a good position in 1995 to acquire assets which will enable it to build upon its initial success.

A handwritten signature in blue ink, appearing to read "Peter J. Workum". The signature is fluid and cursive, with a large initial "P" and "W".

Peter J. Workum
President

C O R P O R A T E A N D O P E R A T I N G I N F O R M A T I O N

1994 IN REVIEW

Although positive earnings in the first year of operation are not common among high risk oil companies, Proprietary had a good year generating a net income of 51,165, gross revenues of \$407,426 and a cash flow of \$115,457 from its 1994 operations.

Proprietary's position was favorably impacted by the purchase of working interests in a gas play in Oyen, an oil play in Pembina and the private placement of 1 million shares to a Swiss pension fund.

"Positive earnings in the first year of operation are not that common among high-risk oil companies."

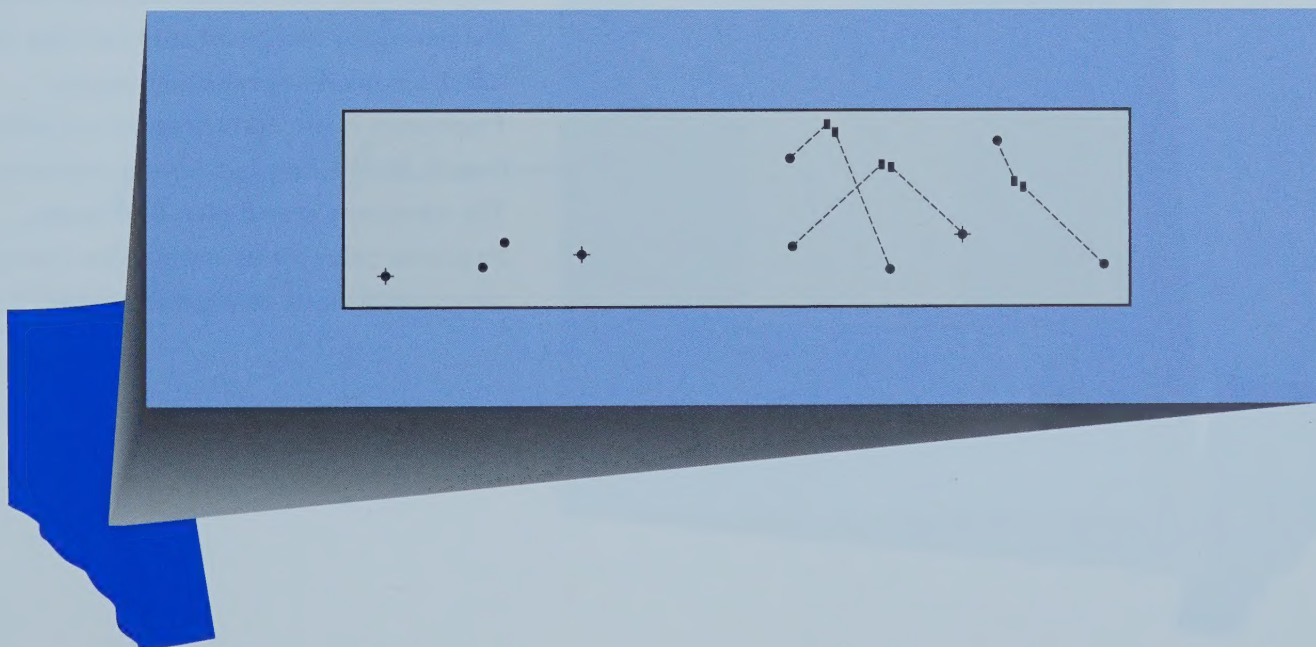
*– Hot Stocks Review
(Supplement to Bull & Bear)
Winter 1994*

Within the lands, there are a total of six producing Cardium oil wells which generate 110 barrels of oil per day (gross production) or an average 5.5 barrels of oil per day net to the company. Remedial workovers were conducted on each of the wells which resulted in an increase in production of approximately 25 per cent.

PEMBINA, ALBERTA

The company owns an undivided five per cent working interest to the base of the Cardium formation

PEMBINA AREA — ACTIVE OIL WELLS



C O R P O R A T E A N D O P E R A T I N G I N F O R M A T I O N

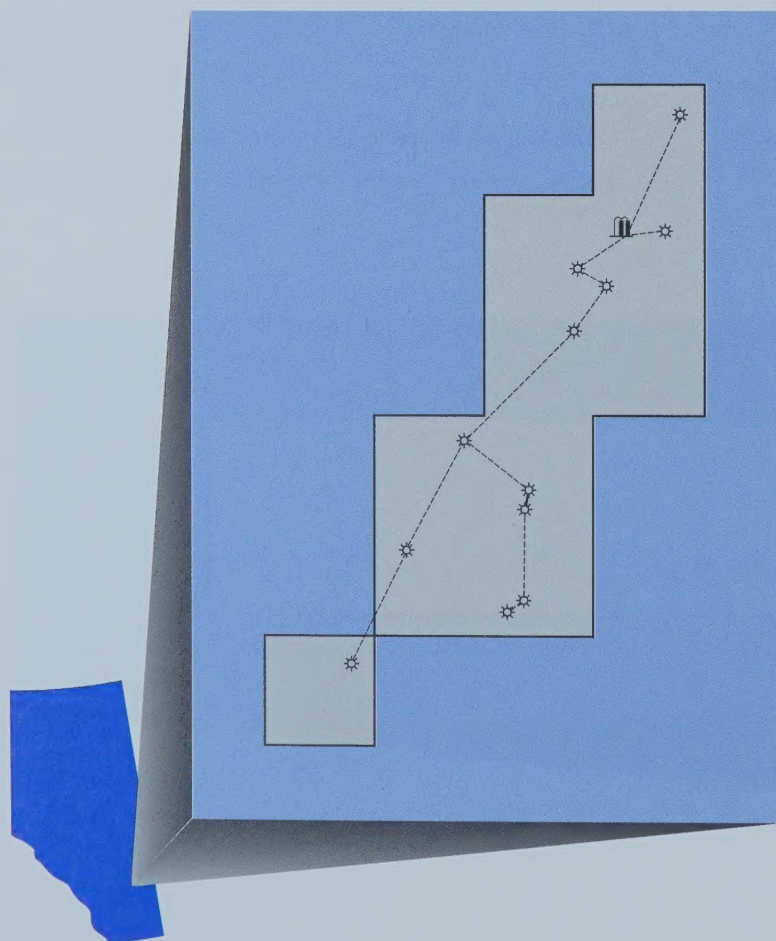
OYEN, ALBERTA

The company owns an undivided 14 per cent working interest in six producing Belly River gas wells. In addition to the working interest, the company also owns a three per cent gross overriding royalty on the wells and associated lands. In 1994, the company acquired a 13 per cent working interest in the compression and gas gathering system servicing the area. The facility also processes third party gas which provides incremental revenues. The Oyen property

generates approximately 400 mcf/d net to the company based on existing wells.

Subsequent to the company's acquisition of the Oyen property, the company participated in the drilling of a development well in the area. The well has been completed as a Belly River gas well and was placed on stream in 1994. The company owns a 2.75 per cent working interest in this new well. Costs to drill, case and complete the well were estimated at \$128,425 (100 per cent working interest) or \$3,531 for 2.75 per cent working interest.

OYEN AREA — ACTIVE GAS WELLS



FUTURE OUTLOOK

In 1995, Proprietary intends to appoint three members of a Swiss pension fund to its board of directors. The potential financial backing of the Swiss pension fund will allow Proprietary to build a profitable asset base through selective acquisitions and low risk drilling programs in targeted areas. The current weakness in the oil and gas equity markets should facilitate the search for suitable acquisition targets. Proprietary is also evaluating participation in certain Middle East and African concessions. The company's overall plan is to create long-term value for its shareholders through the expertise of its management team.

PROPRIETARY ENERGY INDUSTRIES INC.

AUDITORS' REPORT

To the shareholders of Proprietary Energy Industries Inc.,

We have audited the balance sheet of Proprietary Energy Industries Inc. as at September 30, 1994 and the statements of income and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at September 30, 1994 and the results of its operations and the changes in its financial position in accordance with generally accepted accounting principles.

The financial information from the previous year's financial statements were audited by another firm of chartered accountants.

Forbes & Associates

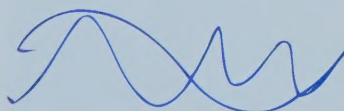
*Forbes & Associates Chartered Accountants
Calgary, Canada
January 9, 1995*

P R O P R I E T A R Y E N E R G Y I N D U S T R I E S I N C .

BALANCE SHEET

<i>As at September 30</i>	<i>1994</i>	<i>1993</i>
ASSETS		
Current assets		
Cash	\$ 185,020	\$ 60,000
Accounts receivable — trade	71,814	—
Accounts receivable — other	54,594	—
	<u>311,428</u>	<u>60,000</u>
Petroleum and natural gas properties (Note 3)	875,510	—
Organizational costs	7,000	—
	<u>882,510</u>	<u>—</u>
Total assets	<u>\$ 1,193,938</u>	<u>\$ 60,000</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued liabilities	\$ 9,500	\$ —
Deferred income taxes	30,700	—
Share Capital (Note 4)	1,102,573	60,000
Retained Earnings	51,165	—
	<u>\$ 1,193,938</u>	<u>\$ 60,000</u>

Approved on behalf of the Board



Peter J. Workum



Douglas A. Street

P R O P R I E T A R Y E N E R G Y I N D U S T R I E S I N C .

STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended September 30

1994

REVENUE

Oil and gas sales, net of royalties	\$ 337,401
Royalty income	12,100
Other income	6,347
	<u>355,848</u>

EXPENSES

Depletion, depreciation and amortization	150,500
Production	51,486
General and administrative	28,724
Professional fees	17,518
Interest expense	16,082
Consulting — project costs	9,673
	<u>273,983</u>

Income, before income taxes	81,865
-----------------------------	--------

Deferred income taxes (Note 5)	<u>(30,700)</u>
--------------------------------	-----------------

Net income	51,165
------------	--------

Retained earnings, beginning of year	—
--------------------------------------	---

Retained earnings, end of year	51,165
--------------------------------	--------

Earnings per share	<u>\$.01</u>
--------------------	---------------

P R O P R I E T A R Y E N E R G Y I N D U S T R I E S I N C .

STATEMENT OF CHANGES IN FINANCIAL POSITION

<i>For the year ended September 30</i>	<i>1994</i>	<i>1993</i>
OPERATING ACTIVITIES		
Net income	\$ 51,165	\$ —
Deferred income taxes	30,700	
Depletion, depreciation & amortization	150,500	—
Change in non-cash working capital	(116,908)	—
	115,457	—
FINANCING ACTIVITIES		
Issue of share capital	1,042,573	60,000
INVESTING ACTIVITIES		
Incorporation costs	(7,000)	
Acquisition of petroleum and natural gas properties	(1,026,010)	—
Increase in cash	125,020	60,000
Cash, beginning of year	60,000	—
Cash, ending	\$ 185,020	\$ 60,000
Cash flow per share	.02	—

NOTES TO THE FINANCIAL STATEMENTS

1. INCORPORATION AND OPERATIONS

The company was incorporated by Certificate of Incorporation issued pursuant to the provisions of the Business Corporations Act (Alberta) on July 8, 1993, as 572571 ALBERTA LTD. The name of the Corporation was changed to Proprietary Energy Industries Inc. by Certificate of Amendment dated August 5, 1993. The Company commenced trading as a junior capital pool corporation on the Alberta Stock Exchange on December 29, 1993. On March 22, 1994, shareholder and regulatory approval was obtained for the company's major transaction and a private placement of one million common shares. The purchase of producing oil and gas properties comprising the major transaction was effective October 1, 1993.

2. SIGNIFICANT ACCOUNTING POLICIES

(A) PETROLEUM AND NATURAL GAS OPERATIONS

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and overhead charges directly related to acquisition, exploration and development activities.

All costs of exploring for and developing petroleum and natural gas reserves, together with the costs of production equipment, are depleted and depreciated on the unit of production method based on estimated gross proven reserves. Petroleum and natural gas reserves and production are converted into equivalent units based upon estimated relative energy content.

In applying the full cost method, the total capitalized costs less accumulated depletion, depreciation, deferred income taxes and provision for future site restoration costs are limited to an amount equal to the estimated future net revenue from proven reserves plus the cost (net of impairments) of unproven properties less estimated future site restoration costs, general and administrative expenses, financing costs and income taxes.

Substantially all of the Company's exploration and development activities related to petroleum and natural gas are conducted jointly with others. The accounts reflect only the Company's proportionate interest in such activities.

(B) FUTURE SITE RESTORATION COSTS

Management has estimated the salvage value of the equipment to be equal to the abandonment cost of the petroleum and natural gas properties and, accordingly, no provision has been recorded in the accounts for future removal and site restoration costs.

P R O P R I E T A R Y E N E R G Y I N D U S T R I E S I N C .

(C) PER SHARE STATISTICS

Basic earnings per share and cash flow per share are calculated using the weighted average number of common shares outstanding during the year.

3. PETROLEUM AND NATURAL GAS PROPERTIES

	1994	1993
Oil and gas properties, at cost	\$ 1,026,010	\$ —
Less depletion and amortization	<u>150,500</u>	<u>—</u>
	<u>875,510</u>	<u>—</u>

During 1994, the Company capitalized general and administrative expenses in the amount of \$15,200.

There are no undeveloped properties which are not subject to a depletion provision.

4. SHARE CAPITAL

(A) AUTHORIZED

(i) Unlimited number of common shares

(ii) Unlimited number of preferred shares

The preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions, and conditions attached to the shares of each series.

(B) ISSUED AND OUTSTANDING COMMON SHARES

	<i>Number</i>	<i>Amount</i>
Balance September 30, 1993	2,000,000	\$60,000
Issued		
- initial public offering for cash	1,700,000	\$170,000
- for petroleum and natural gas properties	2,261,800	\$565,450
- agents stock option agreement	170,000	\$17,000
- private placement for cash	1,000,000	\$330,000
Balance September 30, 1994	7,131,800	\$1,142,450
Less share capital issuance costs		\$39,877
		\$1,102,573

PROPRIETARY ENERGY INDUSTRIES INC.

(C) STOCK OPTIONS

The Corporation has established a stock option plan for the benefit of directors, officers, key employees and consultants of the Corporation under which options have been granted for an aggregate 350,000 common shares and may be exercised at a price of \$0.10 per share until August 4, 1998.

5. INCOME TAXES

The income tax provision for the year ended September 30, 1994 differs from the income taxes which would result from applying the expected income tax rate to income before income taxes as follows:

Expected combined Federal and Provincial income tax rate	44.3%
Computed expected income taxes	36,300
Increase (decrease) resulting from:	
Non-deductible crown charges, net of provincial credits and rebates	22,800
Federal resource allowance	(18,900)
Other	(9,500)
Income tax provision	<u>\$ 30,700</u>

As at September 30, 1994 the company has available the following amounts to reduce future years' taxable income:

Canadian oil and gas property expense	\$ 455,108
Capital cost allowance	168,127
Canadian development expense	155,104
Share issue costs	31,902
Cumulative eligible capital	4,883
Non-capital loss carry forward	15,143

SHAREHOLDER AND INVESTOR INFORMATION

DIRECTORS

Peter J. Workum
President and Director
Calgary, Alberta

Andrew A. Mackenzie
Director
Canmore, Alberta

Robert A. McPherson
Director
Calgary, Alberta

Douglas A. Street
Director
Calgary, Alberta

OFFICERS

Timothy Hamilton
Vice President, Operations
Calgary, Alberta

Theodor Hennig, C.A.
Vice President, Finance
Secretary Treasurer
Calgary, Alberta

FINANCIAL

The auditors of the company are:
Forbes and Associates Chartered Accountants
Suite 1000, 1015 — Fourth Street S.W.
Calgary, Alberta, T2R 1J4

Montreal Trust Company of Canada at its principal office in Calgary, Alberta is the transfer agent and registrar for the Common Shares.

Stock Exchange Listing and Symbol:
The Alberta Stock Exchange — PPI

For Shareholder/Investor inquiries please contact:
Theodor Hennig, C.A.
Vice President, Finance
403-266-6364 (Business)
403-266-6365 (Facsimile)

Head office address
Suite 500
400 — Fifth Avenue S.W.
Calgary, Alberta, T2P 0L6

CONVERSION FACTORS

To conform with common useage, imperial units of measurement are used in this report to describe exploration and production. Dollars are Canadian unless otherwise stated.

1 cubic metre (liquids)	=	6.29 barrels
1 cubic metre (natural gas)	=	35.31 cubic feet
1 litre	=	0.22 imperial gallons
1 hectare	=	2.47 acres
1 tonne	=	0.98 ton (long)

SELECTED TERMINOLOGY

bbls:	barrels, one barrel of oil is 34.972 Imperial gallons, or 42 U.S. gallons.
mbls:	thousand barrels
mmbls:	million barrels
BOPD:	barrels per day
mbl/d:	thousand barrels per day
mcf:	thousand cubic feet
mmcf:	million cubic feet
bcf:	billion cubic feet
mmcf/d:	million cubic feet per day
BOE:	barrels of oil equivalent

PROPRIETARY
ENERGY INDUSTRIES INC.

Suite 500, 400 Fifth Avenue S.W.,
Calgary, Alberta, T2P 0L6